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Most Idaho CEOs brought home more pay in '03

CEO compensation rose in hefty doses for Idaho's public companies in 2003, boosted primarily by increased bonuses. Shareholders of those same companies also saw some healthy returns, reflecting the improving economy and more confidence by investors. The same results were seen in both CEO compensation and shareholder value nationally, according to compensation experts. Here are some highlights from The Idaho Statesman's third annual survey of CEO pay:

• There was little change in the ranking of Idaho CEOs in terms of who is paid the most. The top three continue to be the top executives of companies with the three highest annual revenues: Albertsons' Larry Johnston, Washington Group International's Stephen Hanks, and Boise Cascade's George Harad.

• Only two CEOs in the survey earned less in salary and bonuses than the previous year: Micron Technology's Steve Appleton and Boise Cascade's Harad.
• Half of Idaho's top CEOs led companies that lost money in 2003.

Nationwide, CEOs earned an average of 17.4 percent more in 2003, according to a study of S&P 500 companies.
CEOs of large U.S. firms in 2003 received a median salary and bonus totaling $1.75 million, according to a study released last month by Equilar Inc., a compensation consulting firm in San Mateo, Calif. In addition, those CEOs also received long-term incentives — such as stock options and restricted stock — with a median value of $4.7 million.

For those large firms, the median shareholder return in 2003 was 23.8 percent.

Another study by Equilar looked at smaller public firms, which more closely mirror the size of most of Idaho's corporations. For those CEOs, median salary and bonus amounted to $700,500 in 2003, with long-term incentives having a median value of $574,374.
Last year, these smaller firms had a median shareholder return of 7.1 percent, according to the Equilar study.

Idaho is home to a variety of companies — each in industries that set their own standard for CEO pay. According to Tim Ranzetta, president and chief operating officer of Equilar, firms will set a CEO's compensation package — salary, bonus, stock options, etc. — after looking at what other CEOs in their same industry are paid.
That being said, of the Idaho public companies analyzed, the median CEO salary and bonus totaled $900,000, meaning half made more and half earned less.

That median was dragged down by Micron's Appleton, who netted zero income from his job, although he did cash in some options worth $48,476. Appleton voluntarily gave up $1 million in salary over a 15-month period — and received no bonuses or other compensation — while the firm struggled through huge losses.

Appleton began receiving his $800,000 annual salary again in February of this year.
In general, CEOs rarely give up their salaries. The trend is that wealthy CEOs are getting rapidly wealthier, growing their incomes at a rate that far outpaces the middle-income earner.

In 1965, it took a CEO two weeks to earn an average worker's annual pay. In 2000, a CEO earned more in one workday than what an average worker made in 52 weeks, according to a study by the Economic Policy Institute, a research group that promotes workers' rights.
That study said American CEOs also earn more than twice as much as CEOs in any other advanced country in the world. In fact, non-U.S. CEOs in 13 other countries average just 26 percent of the pay received by American CEOs.

"It's like a golf tournament, with the winner getting the biggest prize," said Gundars Kaupins, professor of management at Boise State University. "We tend to be more individualistic in this country, and there's a philosophy that the top dog should get the most money."

Ben & Jerry's Ice Cream attempted to bridge the salary gap between top management and the lowest paid employee by setting a ratio of 5:1, meaning the CEO could only make five times as much as the lowest paid worker, said Kaupins. Soon, that ratio widened to 7:1, and now it is "ridiculous to 1," he said.
"They went looking for a CEO and saw they couldn't attract the skills they were looking for when they set that budget," said Kaupins. "In the long term it just didn't work."

The pay level for CEOs has been under scrutiny for years, and that fact hasn't escaped The Business Roundtable, an association of CEOs of 150 large U.S. companies.
Last fall, the association — an advocacy group for various business issues — established a set of recommendations to public companies in setting and overseeing CEO pay.

The group does not advocate limits on how much CEOs receive, however. "We don't feel there is one prescription that fits CEO compensation across the board," said Tita Freeman, a spokeswoman for The Business Roundtable. "We address the amount by addressing the parameters."

The group urges companies to link pay to long-term shareholder value and to only allow non-employee independent directors to serve on the boardroom compensation committees that decide how much a CEO is worth.
In addition, The Business Roundtable said CEOs should be required to own and maintain a significant portion of stock in their own company.

"CEOs should be rewarded for good performance and should not be rewarded for failure," said Freeman.
Equilar's Ranzetta said companies continue to diversify the ways in which they compensate their CEOs.

"They're wanting to take a more diversified approach, and are looking more at long-term incentives," said Ranzetta, explaining that can mean restricted stock and retirement packages.

Those long-term incentives also help retain CEOs — an important consideration because those individuals often are the public image for the company, he explained. Losing a CEO can unsettle or frighten investors away from the stock, driving share prices down, and finding a qualified new CEO isn't that easy.
"There is a shortage of good CEOs," said Ranzetta. "The reality is it's a competitive labor market for CEOs. Like it or not, investors place a lot of value in the credence of the CEO. Any time there's a change, it's disruptive."